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FISCAL IMPACT STATEMENT

LS 7518

BILL NUMBER: HB 1883

NOTE PREPARED: Jan 13, 2003

BILL AMENDED:

SUBJECT: Funding public and nonpublic school textbooks.

FIRST AUTHOR: Rep. Pelath

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: *Textbook Provision Without Charge to Students-* Provides textbooks to students in public schools and in accredited nonpublic schools at no charge to the student's family.

Nonpublic Schools Textbook Reimbursement Program- Establishes a parental reimbursement program as the mechanism to provide textbooks for students in accredited nonpublic schools.

Textbook Rental Program- Abolishes the public school textbook rental program and the public school textbook library program. Abolishes the program that provides state reimbursement for textbook assistance to certain public and private school students.

Textbook Definition- Redefines "textbook" to include the various kinds of instructional materials that are currently eligible for state reimbursement under the textbook assistance program.

Textbook Fund- Requires a school corporation to establish a textbook fund and to appropriate money from the fund to purchase and distribute textbooks.

Textbook Grant- Provides an annual state textbook grant to school corporations of \$85 per average daily membership for deposit in the textbook account. Provides an annual appropriation of \$85 per student enrolled in an accredited nonpublic school for whom textbook reimbursement is sought.

Makes conforming changes and adds transitional provisions.

Effective Date: July 1, 2003.

Summary of Net State Impact: The following table illustrates the state potential net cost regarding the provisions of this bill assuming FY 2003 projected levels of PTRC and textbook appropriations.

<u>FY</u>	<u>Textbook Grants</u>	<u>Nonpublic Textbook Grants</u>	<u>Elimination of State Appropriation for Textbooks</u>	<u>Less: Reduction in PTRC</u>	<u>Net Cost*</u>
2004	\$82.0 M	\$6.6 M	(\$19.9 M)	(\$0.030 M)	\$68.7 M
2005	\$82.2 M	\$6.6 M	(\$19.9 M)	(\$0.027 M)	\$68.9 M
2006	\$82.4 M	\$6.6 M	(\$19.9 M)	(\$0.023 M)	\$69.1 M

*As described below in the TANF section, the net cost to the state shown in the table could increase by up to \$9.8 M per fiscal year if additional expenditures in another program are required. However, reclassification of existing, but unidentified, expenditures could mitigate the net increase.

Explanation of State Expenditures:

Textbook Grants- This bill makes two appropriations.

School corporations would be eligible for a state grant per ADM of \$85. The projected costs of these grants are approximately \$82 M for FY 2004, \$82.2 M in FY 2005, and \$82.4 M in FY 2006.

Parents of full-time students enrolled in accredited nonpublic schools would be eligible to receive reimbursement grants per enrolled child of \$85. The projected costs of these grants are approximately \$6.6 M for FY 2004, FY 2005, and FY 2006, respectively.

Total projected costs of the above grants are approximately \$88.6 M in FY 2004, and \$88.8 M in FY 2005, and \$89 M in FY 2006.

Elimination of Textbook Reimbursement- P.L. 291-2001 appropriated \$19.9 M for FY 2003 to pay for a portion of the costs of textbook rental fees that are waived by school corporations for children of families who qualify for the Federal Free and Reduced Lunch Program. Since the bill abolishes the textbook rental program, the state General Fund would realize a savings of \$19.9 M for FY 2004 and thereafter (based on the assumption that future appropriations remain at the FY 2003 level).

Potential Impact on the TANF Block Grant Program- The elimination of the textbook rental program may impact the Temporary Assistance for Needy Families (TANF) program. States are required to meet a specified maintenance of effort (MOE) level in order to qualify for the federal TANF block grant of about \$206 M annually. Indiana's annual TANF MOE obligation is approximately \$121 M. The Family and Social Services Administration (FSSA) meets this obligation by expending state funds appropriated for this purpose and by claiming expenditures from other state agencies that meet the purposes and requirements of eligible TANF MOE expenditures.

FSSA has been able to include as MOE about \$9.8 M of the state expenditure for textbooks described above because it is an expenditure targeted at the low-income population. However, because the proposed textbook grant program is targeted at the general student population, the state expenditure will not qualify as an MOE expenditure, thus requiring either additional expenditures in another program or reclassification of existing,

but unidentified, expenditures as MOE. (The reclassified funds, if qualifying, must also demonstrate an increase in expenditures from the TANF base year. Only the increase in funds can be included as meeting the TANF MOE requirement. This is the reason FSSA cannot count the entire \$16.8 M textbook expenditure described above as MOE.) Actual aggregate MOE expenditures was \$121.1 M in FY 2001 and \$113.5 M in FY 2002. The proposed state MOE expenditures in FY 2003 is projected to be \$105 M - below the level of Indiana's MOE obligation of an estimated \$128.5 M (\$121 M + \$7.5 M penalty for failing to reach MOE expenditure state obligation of \$121 M in FY2002.)

Poor Relief/Reduction of PTRC- With the changes in tax law by HEA 1001-2002(ss), the state will pay 15.4% in 2003 and 16.2% in years 2004 and after of the Property Tax Replacement Credit (PTRC) on poor relief levies. The reduction in the poor relief levy explained under local revenues will result in a projected savings to the State paid by PTRC of \$30,300 in FY 2004 (16.2% of \$187,000). PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Therefore, any reduction in PTRC actually reduces expenditures from the state General Fund.

School Funding Formula Grant Cap- The bill sets the cap for textbook and vocational education grants at \$3.621 B in the school funding formula in 2004 to accommodate the textbook grant.

Explanation of State Revenues:

Explanation of Local Expenditures: School corporations may have additional funds to spend if revenue from these state grants exceeds the current funding sources as explained below.

This bill would require that school corporations pay for textbooks regardless of whether or not a state appropriation is made.

Explanation of Local Revenues: School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the Federal Free and Reduced Lunch Program, and financial assistance from township trustees. As proposed by this bill, school corporations would be eligible to use a state grant of \$85 per ADM instead of the above sources. Under the bill, the CY 2003 grant would only be **50%** of the total received in a year.

The following table compares the projected costs and revenues to public school corporations under current law to the projected costs and revenues as proposed by this bill.

Estimate Based On Current Law				Estimate Based on Proposed Bill				
	Projected	Projected	Current	Projected	Projected	Less:	Projected	Net
<u>CY</u>	<u>Revenue</u>	<u>Costs</u>	<u>Diff.</u>	<u>Revenue</u>	<u>Costs</u>	<u>Trustees Assistance</u>	<u>Diff.</u>	<u>Change</u>
2003	\$77.6 M	(\$84.4 M)	(\$6.8 M)	\$79.8 M*	(\$84.4 M)	(\$0.201 M)	(\$4.8 M)	\$2.0 M
2004	\$80.4 M	(\$98.8 M)	(\$18.4 M)	\$82.1 M	(\$98.8 M)	(\$0.176 M)	(\$16.9 M)	\$1.5 M
2005	\$83.3 M	(\$92.2 M)	(\$8.9 M)	\$82.3 M	(\$92.2 M)	(\$0.164 M)	(\$10.1 M)	(\$1.2 M)

*Includes one-half of CY2003 Projected Revenue- \$38.8 M and one-half CY 2003 State Grant-\$40.9 M.

Estimate Based on Current Law- Under current law, the revenues that school corporations receive from textbook fees and sales are projected to increase at an average rate of 3.6% annually. Monies from the State

General Fund for textbook reimbursements are assumed to remain at the FY 2003 level (General Fund reimbursements), and assistance from township trustees is projected based on a four-year history beginning in FY 1997 (Township Trustee assistance). Textbook purchases are projected to increase by an average rate of 6% annually. The difference between projected revenues and expenditures is shown in the column noted "Current Diff." These projections show that costs would exceed collected revenues assuming that projected trends occur.

Estimate Based on Proposed Bill- As proposed by the bill, school corporations would be eligible to receive revenue from a state grant based on each school corporation's ADM. This grant revenue, estimated to be approximately \$82 M per fiscal year, is not projected to exceed revenues that school corporations currently receive from other sources. The townships' respective maximum levies would be reduced by approximately \$101,000 in CY 2003 (½ the calendar year), \$176,000 in CY 2004, and \$165,000 in CY 2005 which would translate into a gross property tax reduction in the same amount for each calendar year. Taxpayers would realize a net property tax savings (after PTRC) of approximately \$83,000 in CY 2003 (½ the calendar year), \$148,000 in CY 2004, and \$138,000 in CY 2005. The projected savings for local units of government in future years is based on expenditures last reported in CY 1999 of \$339,851.

Net Change- The final column in the table above shows the difference between the net differences of the two sets of projections. Overall, when comparing the differences in projections between current law and this bill, school corporations could potentially realize reduction in revenue loss of \$2 M in CY2003, \$1.5 M in CY 2004, and an increase in revenue loss of \$1.2 M in CY 2005.

Also, under current law, school corporations may provide free textbooks through elementary and high school libraries if 51% of the registered voters in the school district approve a referendum. This bill would reduce the General Fund levy of school corporations that currently provide free textbooks. However, local monies would be replaced by state monies in accordance with this bill. The specific number of school corporations that do so is currently indeterminable, however, at least two have been identified as providing free textbooks to students. The school corporations are as follows: 1) East Gibson School Corporation; and 2) Marion Community Schools.

State Agencies Affected: Department of Education, State Board of Tax Commissioners, Treasurer of State.

Local Agencies Affected: School corporations.

Information Sources: Department of Education ORACLE Data Tables, East Gibson School Corporation, and Marion Community Schools.

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